

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Macon Township	County Lenawee
Fiscal Year End March 31, 2006	Opinion Date July 25, 2006	Date Audit Report Submitted to State September 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

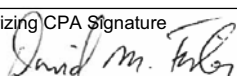
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6507		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

MACON TOWNSHIP

Britton, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
March 31, 2006**



REHMANN ROBSON

Certified Public Accountants

MACON TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

July 25, 2006

Township Board
Macon Township
Britton, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of ***Macon Township, Michigan***, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the remaining fund information of Macon Township, Michigan, as of March 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.B., the Township adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended March 31, 2006. This results in a change in the format and content of the basic financial statements.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Macon Township's basic financial statements. The schedule and the individual fund financial statement listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

MACON TOWNSHIP
Statement of Net Assets and General Fund Balance Sheet
March 31, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 173,862	-	\$ 173,862
Investments	107,090	-	107,090
Taxes receivable	122,874	-	122,874
Due from other governments	16,466	-	16,466
Property and equipment	-	23,341	23,341
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 420,292</u></u>	<u><u>\$ 23,341</u></u>	<u><u>\$ 443,633</u></u>
 Fund Balance/Net Assets			
Fund balances:			
Unreserved			
Designated for subsequent year's expenditures	19,372	(19,372)	-
Undesignated	400,920	(400,920)	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u><u>420,292</u></u>	<u><u>(420,292)</u></u>	<u><u>-</u></u>
 Net Assets:			
Investment in capital assets		23,341	23,341
Unrestricted		420,292	420,292
		<u> </u>	<u> </u>
Total net assets		<u><u>\$ 443,633</u></u>	<u><u>\$ 443,633</u></u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets
March 31, 2006

Fund balance - General Fund	\$ 420,292
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>23,341</u>
Net assets of governmental activities	<u><u>\$ 443,633</u></u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Statement of Activities and General Fund Revenues,
Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2006

	General Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 122,492	\$ -	\$ 122,492
Licenses and permits	5,533	-	5,533
Intergovernmental revenue	99,495	-	99,495
Charges for services	1,870	-	1,870
Interest revenue	5,346	-	5,346
Miscellaneous revenue	3,569	-	3,569
	<hr/>	<hr/>	<hr/>
Total revenues	238,305	-	238,305
	<hr/>	<hr/>	<hr/>
Expenditures/Expenses			
General government	106,587	1,179	107,766
Public safety	30,300	-	30,300
Highways and streets	53,002	-	53,002
Planning	989	-	989
	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	190,878	1,179	192,057
	<hr/>	<hr/>	<hr/>
Change in fund balance	47,427	47,427	
	<hr/>	<hr/>	<hr/>
Change in net assets		(1,179)	46,248
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets, beginning of year, as restated	372,865	24,520	397,385
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets, end of year	<u>\$ 420,292</u>	<u>\$ 23,341</u>	<u>\$ 443,633</u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balance - General Fund	\$ 47,427
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct - depreciation expense	<u>(1,179)</u>
Change in net assets of governmental activities	<u><u>\$ 46,248</u></u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Statement of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended March 31, 2006

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	\$ 92,485	\$ 122,492	\$ 30,007
Licenses and permits	5,000	5,533	533
Intergovernmental revenue	95,000	99,495	4,495
Charges for services	2,000	1,870	(130)
Interest revenue	405	5,346	4,941
Miscellaneous revenue	-	3,569	3,569
	<hr/>	<hr/>	<hr/>
Total revenues	194,890	238,305	43,415
	<hr/>	<hr/>	<hr/>
Expenditures			
General government	124,454	106,587	17,867
Public safety	32,000	30,300	1,700
Highways and streets	50,000	53,002	(3,002)
Planning	2,000	989	1,011
	<hr/>	<hr/>	<hr/>
Total expenditures	208,454	190,878	17,576
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(13,564)	47,427	60,991
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	372,865	372,865	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 359,301</u>	<u>\$ 420,292</u>	<u>\$ 60,991</u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Statement of Fiduciary Net Assets
Current Tax Collections Agency Fund
March 31, 2006

ASSETS

Assets

Cash and short-term investments	<u>\$ 182,105</u>
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LIABILITIES

Liabilities

Due to others	<u>\$ 182,105</u>
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The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Macon Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a four-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities are supported by charges for services and intergovernmental revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

Separate financial statements are provided for the fiduciary fund, even though the latter are excluded from the government-wide financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund also uses the accrual basis of accounting, but does not have a measurement focus.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental fund:

The *general fund* is used to account for all financial transactions not accounted for in another fund. Revenues are derived primarily from property taxes and State distributions, grants and other intergovernmental revenues. The *general fund* accounts for the general operating expenditures not recorded elsewhere.

Additionally, the government reports the following fund type:

The *agency fund* accounts for assets held for other governments in an agency capacity.

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash is considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

2. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Furniture and Equipment	5-15

3. *Compensated absences*

All Township employees are working on a part-time basis and, therefore, no sick time or vacation time benefits are paid to the employees.

4. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted at the activity level for the governmental fund type each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2006, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government -			
Drains	\$ 5,000	\$ 5,240	\$ 240
Highways and streets	50,000	53,002	3,002

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$263,864 of the District's bank balance of \$463,864 was exposed to custodial credit risk because it was uninsured and uncollateralized. The book balance for these deposits was \$463,057.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 173,862
Investments	<u>107,090</u>
	280,952

Statement of Fiduciary Net Assets:

Agency Fund - Cash	<u>182,105</u>
Total	<u><u>\$ 463,057</u></u>

Classification of Deposit and Investments:

Bank deposits (checking accounts, savings accounts and CDs)	<u><u>\$ 463,057</u></u>
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MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

B. Capital assets

Capital assets activity for the year ended March 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Building and improvements	\$ 47,165	\$ -	\$ -	\$ 47,165
Furniture and equipment	15,577	-	-	15,577
Total capital assets being depreciated	62,742	-	-	62,742
Less accumulated depreciation for:				
Building and improvements	23,821	1,179	-	25,000
Furniture and equipment	14,401	-	-	14,401
Total accumulated depreciation	38,222	1,179	-	39,401
Total capital assets being depreciated, net	\$ 24,520	\$ (1,179)	\$ -	\$ 23,341

Depreciation expense was charged to the function "General government".

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund reflect the 2005 Township levies. The Township's general operating tax rate was .8069 mills, .9596 mills for the Township Roads and .4972 mills for fire operating. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$53,741,933. The 2005 levy became a lien on properties on December 1, 2004, and was substantially collected in early 2006. Taxes became delinquent on March 1, 2006.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

B. Restatements

As of and for the year ended March 31, 2006, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

As a result of implementing these pronouncements for the fiscal year ended March 31, 2006, the following restatements were made to beginning fund balance and net asset accounts:

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balance of governmental funds as of 3/31/05,	
as restated	\$ 372,865
Add: governmental capital assets as of 3/31/05	62,742
Deduct: accumulated depreciation as of 3/31/05 on	
above governmental capital assets	<u>(38,222)</u>
Governmental net assets, restated, as of 4/1/05	<u>\$ 397,385</u>

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**GENERAL FUND SCHEDULE
AND INDIVIDUAL FUND STATEMENT**

MACON TOWNSHIP
General Fund
Schedule of Expenditures, Compared to Budget
For the Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
General government				
Township Board	\$ 3,730	\$ 3,730	\$ 3,165	\$ 565
Supervisor	15,490	15,490	15,490	-
Clerk	13,212	13,212	12,434	778
Professional services	10,000	10,000	4,830	5,170
Treasurer	13,212	13,212	12,538	674
Assessor	9,350	9,350	9,350	-
Inspectors	8,525	8,525	5,494	3,031
Township Hall Caretaker	2,550	2,550	2,550	-
Board of Review	900	900	785	115
Cemetery	17,150	17,150	17,150	-
Drains	5,000	5,000	5,240	(240)
Miscellaneous	25,335	25,335	17,561	7,774
	<u>124,454</u>	<u>124,454</u>	<u>106,587</u>	<u>17,867</u>
Total general government				
	124,454	124,454	106,587	17,867
Public safety				
Fire	32,000	32,000	30,300	1,700
	<u>32,000</u>	<u>32,000</u>	<u>30,300</u>	<u>1,700</u>
Highways and streets				
	50,000	50,000	53,002	(3,002)
	<u>50,000</u>	<u>50,000</u>	<u>53,002</u>	<u>(3,002)</u>
Planning				
Zoning	2,000	2,000	989	1,011
	<u>2,000</u>	<u>2,000</u>	<u>989</u>	<u>1,011</u>
Total appropriations and expenditures	<u>\$ 208,454</u>	<u>\$ 208,454</u>	<u>\$ 190,878</u>	<u>\$ 17,576</u>

MACON TOWNSHIP
Statement of Changes in Assets and Liabilities
Current Tax Collections Agency Fund
For the Year Ended March 31, 2006

	<u>Balance - Beginning of year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance - End of year</u>
Assets				
Cash and investments	<u>\$ 153,165</u>	<u>\$ 822,074</u>	<u>\$ 793,134</u>	<u>\$ 182,105</u>
 Liabilities				
Due to others	<u>\$ 153,165</u>	<u>\$ 822,074</u>	<u>\$ 793,134</u>	<u>\$ 182,105</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



July 25, 2006

To the Township Board
Macon Township
Britton, Michigan

We have audited the financial statements of Macon Township for the year ended March 31, 2006, and have issued our report thereon dated July 25, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Macon Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Macon Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Macon Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

As described in Note IV-B to the basic financial statements, in 2006 Napoleon Community Schools changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in the creation of a new category of equity, referred to as “net assets”.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Macon Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Macon Township, either individually or in the aggregate, indicate matters that could have a significant effect on Macon Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Macon Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Township, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MACON TOWNSHIP

Comments and Recommendations

For the Year Ended March 31, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated July 25, 2006 on the financial statements of Macon Township.

Road and Fire Mills

The Township presently records revenues and expenditures for its Road and Fire Millages in the General Fund. Normally, these activities are shown in separate funds. If the Township continues to show these activities in the General Fund, there should be a system to track monies not spent on road and fire activities from year to year, as this millage revenue is restricted.

Internal Control Comments

Management (the Township Officials) is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by Township Officials and employees as possible.